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Managing environmental turbulence in the microfinance sector - a case study of the Aga Khan rural support programme in Pakistan

Ashfaq A. Khan
University of Wollongong

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**MANAGING ENVIRONMENTAL TURBULENCE IN THE
MICROFINANCE SECTOR — A CASE STUDY OF THE
AGA KHAN RURAL SUPPORT PROGRAMME IN
PAKISTAN**

A thesis submitted in fulfilment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

by

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Bachelor of Business Administration (Gold Medallist) (University of Peshawar, Pakistan), Master of Business Administration (Accounting and Finance) (Second Position in Order of Merit), (University of Peshawar, Pakistan), Diploma in Banking (The Institute of Bankers in Pakistan, Karachi, Pakistan)

**SCHOOL OF ACCOUNTING AND FINANCE
UNIVERSITY OF WOLLONGONG, AUSTRALIA**

2008

AUTHOR'S CERTIFICATION

I, Ashfaq Ahmad Khan, certify that this thesis, in whole or any part thereof, has not been previously submitted for any other degree, and is the outcome of my own research.

I further certify that all sources resorted to or any help received in preparing this thesis have been fully acknowledged in the thesis.

Signed: _____

A handwritten signature in black ink, appearing to be 'Ashfaq Ahmad Khan', written over a horizontal line.

Ashfaq Ahmad Khan

ACKNOWLEDGEMENT

I am grateful to my God for having guided me at every stage in my life. For sure, I wouldn't have made it to this point without His (swt) continuous support and guidance.

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Dedication

This thesis is dedicated to my parents whose love I have witnessed throughout my life, and whose sincere supplications to God regarding me have saved me from going astray in my life; and to my wife, Khalida, whose company and deep sincerity gave me the strength to accomplish this task.

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List of Acronyms

AKF:	Aga Khan Foundation
AKFED:	Aga Khan Fund for Economic Development
AKDN:	Aga Khan Development Network
AKESP:	Aga Khan Educational Services Pakistan
AKPBSP:	Aga Khan Planning and Building Services Pakistan
AKRSP:	Aga Khan Rural Support Programme
AKUH:	Aga Khan University Hospital
AKFED:	Aga Khan Fund for Economic Development
AJKRSP:	Azad Jammu and Kashmir Rural Support Program
BAAC:	Bank for Agriculture and Agricultural Cooperatives
BRSP:	Balochistan Rural Support Program
BIDS:	Bangladesh Institute of Development Studies
CGAP:	Consultative Group to Assist the Poor
CIDA:	Canadian International Development Agency
DFID:	Department for International Development (UK)
FMFBL:	First Microfinance Bank Limited
GDP:	Gross Domestic Product
GBTI:	Ghazi Barotha Taraqiati Idara
GNP:	Gross National Product
GOP:	Government of Pakistan
GTZ:	German Agency for Technical Cooperation
IFC:	International Finance Corporation
IDAs:	International Development Agencies
IUCN:	International Union for Conservation of Nature and Natural Resources
MFI:	Microfinance Institutions
MACP:	Mountain Areas Conservation Project
NAs:	Northern Areas
NAC:	Northern Areas and Chitral
NRSP:	National Rural Support Program
NRM:	Natural Resource Management
NIE:	New Institutional Economics
NORAD:	Norwegian Agency for Development Cooperation
NWFP:	North West Frontier Province
PPAF:	Pakistan Poverty Alleviation Fund
PMN:	Pakistan Microfinance Network
PRSP:	Poverty Reduction Strategy Paper
PRSP:	Punjab Rural Support Program
RSPN:	Rural Support Programs Network
RSPs:	Rural Support Programs
SRSP:	Sarhad Rural Support Program
SDI:	Subsidy Dependence Index
SDPI:	Sustainable Development Policy Institute
SRDP:	Sind Rural Development Program
TRDP:	Tardeep Rural Development Program
UNDP:	United Nations Development Program
USAID:	United States Agency for International Development
WWF:	The Worldwide Fund for Nature

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Appendix N	Some correspondence with the AKRSP and FMRBL staff

Abstract

Microfinance is a powerful development tool with which to alleviate the problem of poverty through providing financial services to the poor. The real essence of all microfinance efforts around the world is to enable the poor to break the cycle of poverty by establishing and nourishing small businesses. The international donor community¹ and governments have had substantial financial and non-financial investments in developing and providing subsidized financial services for the poor on the premise that they have limited access to the formal mainstream financial institutions.

There was a drastic shift in the microfinance paradigm during the early 1990s when the donor community changed its thinking and approach as to the sustainability of microfinance institutions around the world. Instead of providing subsidized financial services to microfinance institutions (MFIs) for their life time, the donors started emphasizing self-sustainability on the part of MFIs through cost control, efficient operations, and adopting commercialism. The shift in the donors' approach, in turn, resulted in competition among MFIs as they had to struggle for more and more clients to ensure their sustainability. These new issues came as external disturbances for the MFIs which were previously heavily dependent on the donors' subsidized funding, and they had to adapt and reorient to the changed external conditions.

This study is a case study based on the Aga Khan Rural Support Programme (AKRSP) — one of the prominent microfinance institutions in Pakistan. It explores the internal

¹ The term 'international donor community', referred to as 'donors', 'donor community', or 'donor agencies' in the thesis, connotes international sources of subsidized funding for the poor. This includes bi-lateral and multi-lateral financial organizations such as the Consultative Group to Assist the Poor (CGAP), The World Bank, and the Asian Development Bank (ADB), among others.

adaptation and reorientation of the Programme's microfinance division in response to these changed external circumstances. The study has two different aspects; *first*, the internal adaptation and reorientation of the microfinance division of the AKRSP to the changed external circumstances and, *second*, its passive submission to the changed environmental conditions. Therefore, the study resorted to two theoretical frameworks — Laughlin's (1991) Model of Organizational Change and Institutional Theory (DiMaggio and Powel, 1983) to placate the two aspects of the research issue. The study provides insights into the successful adaptation of the AKRSP in which it had to tailor all of its tangible and intangible organizational elements in response to the changed external conditions to ensure its survival and sustainability.

The study examines the process of transformation of the subject as it changed from a donor based institution to a sustainable, commercial institution. The study draws parallels between the theories of Laughlin, and DiMaggio and Powell, and the events that took place during this transformation.

Key words: microfinance, sustainability, commercialism, organizational change.